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**DESIRE NARCOTICS REHABILITATION
CENTER, INC.**

**INDEPENDENT AUDITOR'S REPORT AND REPORT
ON INTERNAL CONTROL AND COMPLIANCE**

For the Year Ended June 30, 2000

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 03/07/01

DESIRE NARCOTICS REHABILITATION CENTER, INC.

JUNE 30, 2000

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**EILEEN
SHANKLIN
ANDRUS**
CERTIFIED PUBLIC
ACCOUNTANT

Member of the
American Institute
of Certified Public
Accountants

Member of the
Louisiana Society
of Certified Public
Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Desire Narcotics Rehabilitation Center, Inc.
4116 Old Gentilly Road
New Orleans, LA 70126

I have audited the accompanying statement of financial position of Desire Narcotics Rehabilitation Center, Inc. (a nonprofit entity) as of June 30, 2000 and the related statement of activity and changes in net assets, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Board's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Desire Narcotics Rehabilitation Center, Inc. as of June 30, 2000 and the changes in net assets and cash flows for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 8 of these financial statements the Center has suffered recurring losses and significant reductions in grant revenues and has incurred a net deficiency in net assets for the past three years, which causes doubt about the Center's ability to continue as a going concern.

In accordance with *Government Auditing Standards*, I have also issued my report dated December 20, 2000 on my consideration of Desire Narcotic's Rehabilitation Center's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants.

The accompanying schedule of findings and other supplementary information is presented for purposes of additional analysis as required by *Governmental Auditing Standards* , and is not a required part of the basic financial statements and , in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Eileen S. Andrus".

Eileen Shanklin Andrus

CERTIFIED PUBLIC ACCOUNTANT

December 20, 2000

DESIRE NARCOTICS REHABILITATION CENTER, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2000

ASSETS

Current Assets

Cash and Cash Equivalents	\$	446
Accounts Receivable		<u>66,346</u>
Total Current Assets		<u>66,792</u>

Fixed Assets

Furniture and Fixtures	131,222
Accumulated Depreciation	<u>(130,477)</u>
Total Fixed Assets, Net	<u>745</u>

Total Increase in Net Assets	\$	<u><u>67,537</u></u>
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LIABILITIES AND NET ASSETS

Current Liabilities

Accounts Payable	\$	43,636
Due to Executive Director		461,946
Wages Payable		79,734
Payroll Tax Liabilities		<u>177,483</u>
Total Current Liabilities		<u>762,799</u>

Net Assets

Unrestricted Net Assets	(696,037)
Temporarily Restricted	<u>775</u>
Total Net Assets	<u>(695,262)</u>

Total Liabilities and	
Net Assets	\$ <u><u>67,537</u></u>

The accompanying notes are an integral part of these financial statements.

DESIRE NARCOTICS REHABILITATION CENTER, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2000

INCREASES IN UNRESTRICTED NET ASSETS	UNRE- STRICTED	TEMPORARILY RESTRICTED		TOTAL
		\$	\$	
Support & Revenue:	--	116,783	116,783	116,783
Federal Grant Revenues	--	370,509	370,509	370,509
State Grant Revenues				
Contractual	\$ 208,394	--	--	208,394
Contributions of Directors	451,144	--	--	451,144
Contributions of Patrons	<u>148,925</u>	--	--	<u>148,925</u>
Total Increase in Net Assets	<u>808,463</u>	<u>487,292</u>	<u>487,292</u>	<u>1,295,755</u>
Assets Released From Restrictions	<u>487,292</u>	<u>(487,292)</u>		--
Net Increase in Net Assets	<u>1,295,755</u>	\$ --		<u>1,295,755</u>
DECREASES IN UNRESTRICTED NET ASSETS				
Program Expenses:				
Drug Rehabilitation	602,876	--	--	602,876
Housing Assistance	<u>118,570</u>	--	--	<u>118,570</u>
Total Program Expenses	<u>721,446</u>	--	--	<u>721,446</u>
Support Expenses:				
Management and Administrative	<u>140,832</u>	--	--	<u>140,832</u>
Total Support Expenses	<u>140,832</u>	--	--	<u>140,832</u>
Total Expenses	<u>862,278</u>			<u>862,278</u>
Total Increase in Net Assets	<u>433,477</u>	--	--	<u>433,477</u>
Beginning Net Assets 6/30/99	(1,461,228)	--	--	(1,461,228)
Prior Period Adjustment	<u>332,489</u>	--	--	<u>332,489</u>
Restated Net Assets 6/30/99	(1,128,739)	--	--	(1,128,739)
Ending Net Assets at 6/30/00	\$ <u>(695,262)</u>	\$ --		<u>(695,262)</u>

The accompanying notes are an integral part of these financial statements.

DESIRE NARCOTICS REHABILITATION CENTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES

JUNE 30, 2000

	<u>Program Services</u>	<u>Housing</u>	<u>Supporting Services Management and General</u>	<u>Total</u>
	<u>Drug Rehab</u>	<u>Assistance</u>		
Aids Outreach	\$ 88,350	--	--	\$ 88,350
Chemotherapy	111,579	--	--	111,579
Drug Free	319,458	--	--	319,458
Infinity	68,572	--	--	68,572
Ryan White	14,917	--	--	14,917
Hano	--	\$ 14,509	--	14,509
Shelter Plus	--	104,061	--	104,061
Salaries	--	--	\$ 20,919	20,919
Fringe Benefits	--	--	4,178	4,178
Professional Fees	--	--	13,141	13,141
Contributions	--	--	21,208	21,208
Depreciation	--	--	343	343
Casual Labor	--	--	8,926	8,926
Bank Charges	--	--	867	867
Client Incentive	--	--	1,013	1,013
Client Medication	--	--	458	458
Group Activity	--	--	3,098	3,098
Subscriptions	--	--	1,989	1,989
Repairs	--	--	5,348	5,348
Insurance	--	--	6,592	6,592
Miscellaneous	--	--	5,515	5,515
Printing	--	--	515	515
Rent	--	--	3,314	3,314
Supplies - Medical	--	--	2,483	2,483
Supplies - Office	--	--	5,505	5,505
Utilities	--	--	12,656	12,656
Travel	--	--	16,065	16,065
Telephone	--	--	6,699	6,699
Total	\$ <u>602,876</u>	\$ <u>118,570</u>	\$ <u>140,832</u>	\$ <u>862,278</u>

The accompanying notes are an integral part of these financial statements.

DESIRE NARCOTICS REHABILITATION CENTER, INC

STATEMENT OF CASH FLOWS

JUNE 30, 2000

Cash flows from Operating Activiites:		
Increase in Net Assets	\$	433,477
Add: Depreciation Expense		2,202
 (Increase) Decrease in Assets:		
Grant Receivables		86,655
Other Receivables		300,000
 Increase (Decrease) in Liabilities:		
Accounts Payable		(366,085)
Wages Payable		<u>(577,289)</u>
 Net Cash Provided (used) provided by Operating Activities		<u>(121,040)</u>
 Cash Flows from Investing Activities		
Owner's Contribution to Line of Credit		<u>259,942</u>
Net Cash Provided (Used) in Investing Activities		<u>259,942</u>
 Cash Flows from Other Financing Activities		
Payments on Advances from Officers		<u>(138,539)</u>
Net Cash Provided (Used) by Financing Activities		<u>(138,539)</u>
 Net (Decrease)in Cash and Cash Equivalents		363
Cash and Cash Equivalents at June 30, 1999		<u>83</u>
Cash Equivalents at June 30, 2000	\$	<u>446</u>

The accompanyin notes are an integral part of these financial statements.

DESIRE NARCOTICS REHABILITATION CENTER, INC.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2000

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The Center is a nonprofit community based organization created for the purpose of combating substance abuse in and around the Desire Community located in New Orleans, Louisiana.

The Center was incorporated in 1970. The Center's philosophy is:

“ to implement a comprehensive program that concentrates on the treatment and rehabilitation of the substance abuser, through focusing on assisting the individual to develop new living patterns for coping with the forces contributing to his/her usage, as well as, bringing about positive alteration of the community environment in which incidences of substance abuse along with its resultant problems thrive.”

B. The Center operates the following programs to accomplish its objective as noted above:

The Infinity program provides counseling and rehabilitation to substance abusing pregnant women and their children.

The Drug Free program provides diagnostic, therapeutic, and social support services to ex-addicts and potential addicts. The court liaison sub-phase provides advocacy through interfacing with the courts for clients, their families and the community.

The Homeless program provides comprehensive social and medical services for the homeless. The Center provides treatment and counseling to meet the needs of homeless substance abusers.

The Chemotherapy program recruits addicts to assist in eliminating their heroin and/ or morphine drug dependency and provides methadone maintenance. Comprehensive services are delivered to clients from program entry through treatment.

The Aids Outreach/Ryan White program provides for condom distribution, street and community outreach, HIV prevention, counseling and testing.

The Shelter Plus program provides safe decent housing for the substance abuser.

DESIRE NARCOTICS REHABILITATION CENTER, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

June 30, 2000

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

C. Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the organization and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets- Net Assets subject to donor-imposed stipulation that may or will be met, either by actions of the Center and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets - Net Assets subject to donor-imposed stipulations that must be maintained. These restrictions do not expire with the passage of time.

Presently, all of the Center's funds are considered unrestricted because they are on a reimbursement and/or fee for services basis.

D. Property and Equipment

The Center's furniture and equipment is recorded at cost. Depreciation is computed annually over the estimated useful life of the asset. All of the Center's fixed assets are being depreciated over a three year period.

E. Tax Exempt Status

Desire Narcotics Rehabilitation Center is a nonprofit organization under Internal Revenue Code Sections 501(c) (3); therefore, no provision has been made for federal or state income taxes.

DESIRE NARCOTICS REHABILITATION CENTER, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

June 30, 2000

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

F. Accrued Compensated Absences

Employees of the Center earn paid vacation at a rate of two weeks per year and paid sick time at a rate of one week per year. Any vacation or sick time not taken cannot be carried over to subsequent years.

G. Cash Equivalents

For purposes of the statement of cash flows, the Center considers all unrestricted cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

H. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affects certain reported amounts and disclosures. Accordingly, actual amounts may differ from those estimates.

NOTE 2 - ACCOUNTS RECEIVABLE

The Center had the following amounts due from their grantors at June 30, 2000:

Drug Free	\$ 30,646
Methadone	<u>35,700</u>
Total	<u>\$ 66,346</u>

These amounts result from grant expenses incurred, which had not been reimbursed at June 30, 2000.

DESIRE NARCOTICS REHABILITATION CENTER, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

June 30, 2000

NOTE 3- FURNITURE AND FIXTURES

The Center's furniture and fixtures consist of the following:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Ending Balance</u>
Equipment and furnishings	\$ 105,071	\$ --	\$105,071
Vehicles	<u>26,151</u>	<u>--</u>	<u>26,151</u>
Total	<u>\$131,222</u>	<u>\$ --</u>	<u>131,222</u>
Less: Accumulated Depreciation			<u>(130,477)</u>
Net Fixed Assets			\$ <u>745</u>

Total depreciation expense totals \$ 2,202 at June 30, 2000.

NOTE 4 - ADVANCE FROM OFFICERS

The amount due to officers represent advances made to the Center in the form of cash or unpaid salary amounts. These amounts are non-interest bearing and are payable upon demand. During the year ended June 30, 2000 the officers of the corporation donated all amounts loaned to the corporation from unpaid salaries over the past four years. This amount totaled \$400,515 and is recorded as contributions in the statement of activities.

NOTE 5 - OPERATING LEASES

The Center has a one year operating lease expiring on September 30, 2001 for the lease of property used for the administrative offices. Total amount of rent charged during the audit period is \$44,414.

DESIRE NARCOTICS REHABILITATION CENTER, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

June 30, 2000

NOTE 6 - RELATED PARTY TRANSACTIONS

The Executive Director and the Assistant Executive Director have contributed financial support to the Center for several years. These amounts are reflected in Advances from Officers. The Executive Director has also donated some of the rent on the administrative building used by the Center, which he owns.

NOTE 7 - CONTINGENCIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government the City of New Orleans and the Department of Social Services of the State of Louisiana. Any disallowed claims including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time.

NOTE 8 - GOING CONCERN

Although the amount of the deficit in net assets has decreased substantially, the Center is still suffering recurring significant reductions in grant revenues and has incurred a net deficiency in net assets for the past three years.

Management plans to secure additional funding, which will help, alleviate the financial hardship the agency is suffering from.

NOTE 9 - LITIGATION

The Center is still a party to litigation whereby the Center's operating account was levied in error for approximately \$143,000. The Center is in the process of asserting their rights for return of their funds because they feel the levy was illegal and inappropriate. The outcome of this litigation is still unknown at June 30, 2000.

DESIRE NARCOTICS REHABILITATION CENTER, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

June 30, 2000

NOTE 10 - CONCENTRATIONS

The majority (80%) of the Center's funding comes from federal and state funding in the form of contracts and grants.

NOTE 11 - PRIOR PERIOD ADJUSTMENT

The amounts shown as a prior period adjustment is the result of older outstanding checks that have been voided for audit purposes but not taken off of the outstanding check listing by the Center. This adjustment resulted in an increase in cash and an increase in unrestricted net assets of \$ 332,489.

SUPPLEMENTARY INFORMATION

DESIRE NARCOTICS REHABILITATION CENTER, INC.

STATEMENT OF EXPENSES BY PROGRAM

JUNE 30, 2000

	Program Services			Services Management and					
	Aids Outreach	Chemo therapy	Drug Free	Ryan White	Infinity	Hano	Shelter Plus	General	Total
Salaries	\$ 59,972	\$ 62,691	\$ 192,499	\$ 11,066	\$ 52,448	\$ 12,249	\$ 26,611	\$ 20,919	\$ 438,455
Fringe Benefits	17,634	21,552	50,913	2,448	10,919	2,260	6,450	4,178	116,354
Professional Fees	800	2,000	9,142	--	700	--	--	13,141	25,783
Contributions	--	--	--	--	--	--	--	21,208	21,208
Depreciation	--	--	--	--	--	--	--	2,202	2,202
Casual Labor	--	350	--	--	--	--	7,979	8,926	17,255
Bank Charges	--	--	--	--	--	--	--	867	867
Client Incentive	--	--	--	--	--	--	--	458	458
Client Medication	--	--	--	--	--	--	--	1,013	1,013
Group Activity	--	--	--	--	--	--	--	3,098	3,098
Subscriptions	--	--	--	--	--	--	--	1,989	1,989
Repairs	135	50	915	--	983	--	2,345	5,348	9,776
Insurance	2,560	8,234	4,200	--	1,861	--	23,970	6,592	47,417
Miscellaneous	531	--	1,873	--	--	--	--	3,656	6,060
Printing	263	--	--	--	43	--	--	515	821
Rent	2,100	--	33,000	--	6,000	--	--	3,314	44,414
Supplies - Medical	--	8,752	--	--	(1,713)	--	--	2,483	9,522
Supplies - Office	939	1,595	9,749	481	15	--	--	5,505	18,284
Utilities	209	3,628	8,500	--	(1,742)	--	36,363	12,656	59,614
Telephone	1,768	2,727	8,667	922	(942)	--	343	16,065	29,550
Travel	1,439	--	--	--	--	--	--	6,699	8,138
Total	\$ 88,350	\$ 111,579	\$ 319,458	\$ 14,917	\$ 68,572	\$ 14,509	\$ 104,061	\$ 140,832	\$ 862,278

The accompanying notes are an integral part of these financial statements.



**EILEEN
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**REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Desire Narcotics Rehabilitation Center, Inc.
4116 Old Gentilly Road
New Orleans, LA 70126

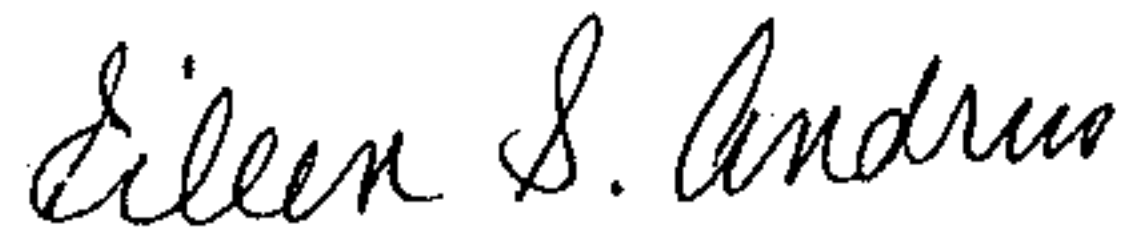
I have audited the financial statements of the Desire Narcotics Rehabilitation Center, Inc. (a non-profit organization) as of and for the year ended June 30, 2000, and have issued my report thereon dated December 20, 2000. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

As part of obtaining reasonable assurance about whether Desire Narcotics Rehabilitation Center, Inc.'s financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and are described in the accompanying schedule of findings and questioned costs as items #99-1, #00-1 and #00-2 .

In planning and performing my audit, I considered Desire Narcotic's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be a reportable condition. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the Center's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. These reportable conditions are described in the accompanying schedule of findings and questioned costs as items #99-1, #00-1 and #00-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions that are also considered to be a material weakness. However, the reportable conditions described in the schedule of findings as items #99-1 and #00-1 are considered to be material weaknesses.

This report is intended for the information of the Legislative Auditor of the State of Louisiana, the Board and management of the Center, federal and state awarding and pass-through agencies and is not intended to be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.



Eileen Shanklin Andrus
CERTIFIED PUBLIC ACCOUNTANT

December 20, 2000

DESIRE NARCOTICS REHABILITATION CENTER, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2000

Section 1 Summary of Auditor's Reports

Financial Statements

Type of auditor's report issued = unqualified

Internal Control over financial reporting:

Material Weakness(es) identified X Yes No
Reportable Condition(s) identified
that is not considered to be
material weaknesses X Yes none reported

Noncompliance material to financial
Statements noted? X Yes No

Section II Financial Statement Findings

#99-1 Timely Payment of Payroll Tax Liabilities

Condition: During the course of my testing I noted that when the Center prepared payroll manually in 1997, the payroll was not being called into the payroll processing service for inclusion on the quarterly payroll tax returns. This omission resulted in a lesser amount remitted for payroll taxes than required. These taxes are still owed in 1999.

Cause: This condition is caused by the Center's financial condition.

Effect: This condition has the effect of putting the Center in a position to be assessed additional penalties and interest.

Criteria: Federal law requires that the quarterly tax returns be accurately prepared and the withholding taxes be remitted in a timely manner.

Recommendation: I recommend that the Center pay all payroll taxes in a timely manner.

DESIRE NARCOTICS REHABILITATION CENTER, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2000

Section III Financial Award Findings and Questioned Costs

#99-1 Timely Payment of Payroll Tax Liabilities

Condition: During the course of my testing I noted that when the Center prepared payroll manually in 1997, the payroll was not being called into the payroll processing service for inclusion on the quarterly payroll tax returns. This omission resulted in a lesser amount remitted for payroll taxes than required. These taxes are still owed in 1999.

Cause: This condition is caused by the Center's financial condition.

Effect: This condition has the effect of putting the Center in a position to be assessed additional penalties and interest.

Criteria: Federal law requires that the quarterly tax returns be accurately prepared and the withholding taxes be remitted in a timely manner.

Recommendation: I recommend that the Center pay all payroll taxes in a timely manner.

#00-1 Timely Payment of Grant Expenses

Condition: During the course of my testing of grant programs I noted that the Center *incurred* and documented *expenses* prior to requesting reimbursement; however, my testing showed no evidence of the *payment of some expenses* prior to requesting reimbursement. I further noted that there were significant amounts requested under the Drug Free Program of 2000 administered by the Department of Health and Hospitals of the State of Louisiana that had not been paid as of the preparation of this report. Total unpaid amounts total \$ 65,722 at June 30, 2000.

Cause: This condition is caused by the Center's financial condition and the layoff of all staff at the end of May of 2000 due to funding cuts.

Effect: This condition has the effect of putting the Center in noncompliance with the cost reimbursement provisions of their Drug Free grant..

Criteria: The contract with the Department of Health and Hospitals specifically states that cost reimbursement grants should be paid prior to reimbursement.

Recommendation: I recommend that the Center discontinue this practice of holding checks until reimbursement is received. I further recommend that non-grant funding be secured to help fund operations between reimbursement requests.

DESIRE NARCOTICS REHABILITATION CENTER, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2000

Section III Financial Award Findings and Questioned Costs

#00-2 Timely Submission of Audited Financial Statements

Condition: During the course of our testing we noted that the audit was engaged in November of 2000 and therefore not completed until January of 2001 (30 days after the deadline for submission to the State of Louisiana's Legislative Auditor's Office.

Cause: This condition is caused by a delay in engaging the auditor and the delay in having access to accounting records which were being utilized by the Department of Health and Hospitals Internal Audit staff.

Effect: This condition has the effect of noncompliance with State Law.

Criteria: A good system of internal controls over the reporting function would have the audit reports submitted in a timely fashion in accordance with State Law.

Recommendation: I recommend that Desire Narcotics institute procedures whereby, auditors are engaged and audits are completed in a timely manner.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

#99-1 Payroll Tax Liabilities - Comment Unresolved.

MANAGEMENT'S CORRECTIVE ACTION PLAN

Section II and III Financial Statement and Federal Award Findings

See attached comments.

Desire Narcotics Rehabilitation Center, Inc.
Auditee Responses

For the year ended June 30, 2000

Condition

The auditor has commented on the Center's ability to continue as a going concern in the "Independent Auditor's Report".

Response:

DNRC's ability to continue as a going concern is not a question. The organization will continue to function with or without state funding. The facts reflect that it took a series of calculated moves by State officials to have all contracts terminated between the State of Louisiana and DNRC. The contract terminations, along with underfunded and unfunded contracts has placed the organization (DNRC) in the current position, that now its ability to continue to operate as a going concern has been questioned, is the problem.

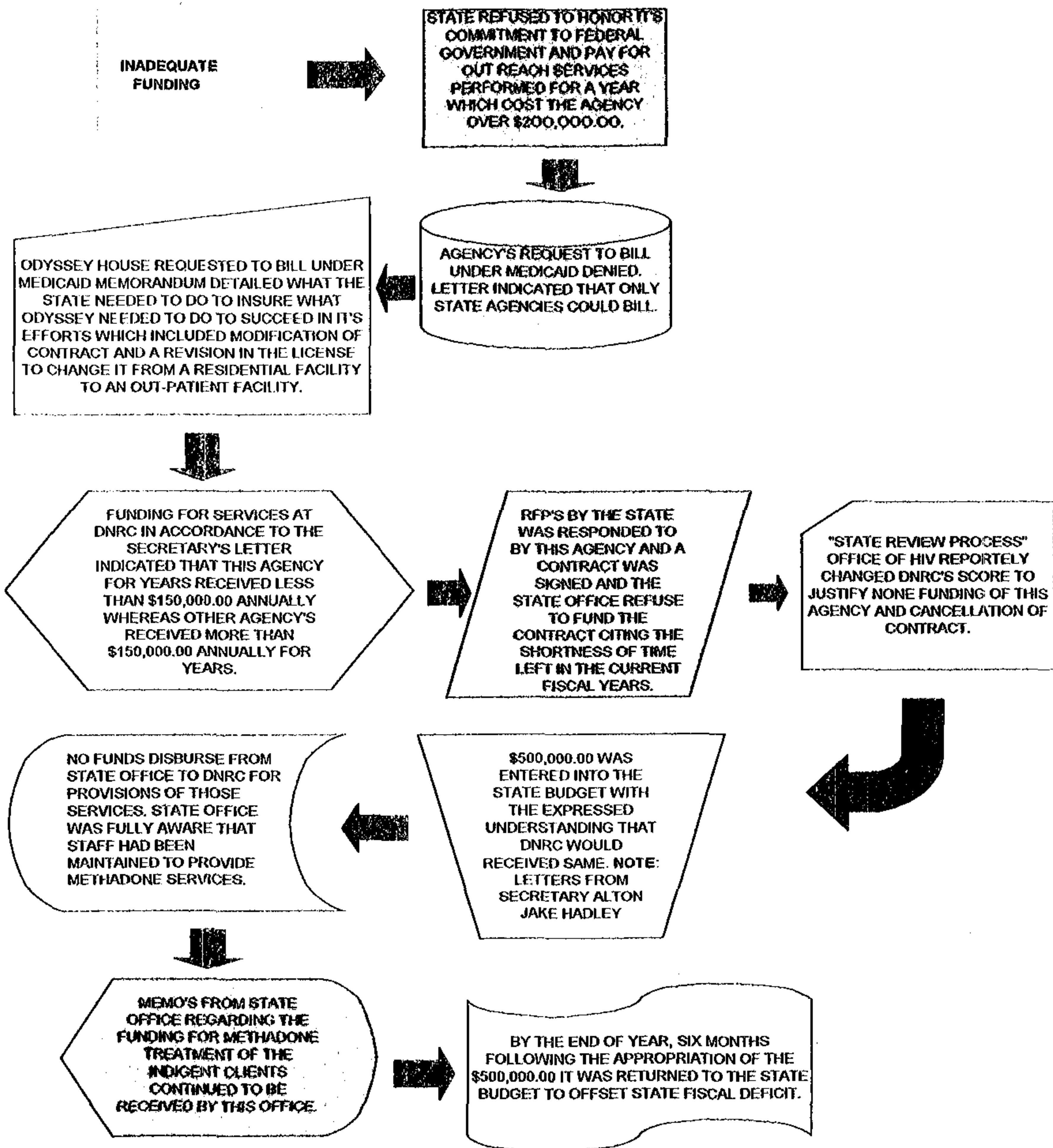
Four contracts were terminated because it was stated that "the terminations were in the best interest of the State". These terminations were made prior to any operational or financial review of DNRC by the State. During the past 20 years DNRC has provided services to the indigent heroin addicts with little to no assistance from the State. This organization continues to be the only non for profit entity that provides methadone related services to the indigent. On going monitoring reviews by the Food and Drug Administration, the State Substance Abuse Office, State licensing, and the Drug Enforcement Agency, has not revealed any deficiencies in the operation of this agency. The commitment to provide quality care is reflected in the more than \$700,000.00 advanced by the Executive Director of DNRC.

The fact that, by its own admission, the State has under funded the services that DNRC provides has been a contributing factor in the financial condition of the organization. Further DNRC funded services for programs that the State had promised to fund. The State then decided that the funding would not be allowed, thus placing the organization in additional financial jeopardy. Then there is the matter of \$500,000 that was requested by the Executive Director of DNRC through the Black Caucus and allocated by the Legislature for funding of methadone related services to be administered by DNRC. DNRC was led to believe that the funds would be set in place for the administration and operation of the program for fiscal year beginning July 1999. The State went so far as to request that DNRC be the sole source for the contract. Under the assumption that this money would be forth coming, DNRC provided services to the target population. The State never prepared the contract for the administration of these funds and nothing else was ever heard as far as the disbursement of the funds.

The State has also shown a propensity to favor one organization over another. Case in point. When DNRC requested to go on Medicaid reimbursement, the organization was told that since it was not a clinic, it could not bill for Medicaid reimbursement. However, when Odyssey House (another non profit organization) made the same request, after DNRC had been rejected, the State went out of its way to reclassify the organization in order that it would qualify to receive Medicaid reimbursements.

Several Request for Proposals (RFPs) were released and responded to by this agency. Contracts were being drafted to award the contracts to DNRC, however, these contracts were cancelled by the State because of the limited time remaining in the fiscal year. These RFPs were released with clear knowledge of the time frame involved.

STATE FUNDING TO DNRC, INC HAS BEEN PLAGUED WITH PREJUDICE/RACISM AND INJUSTICE.



PROBLEMS IN STATE OFFICE / RESULTS D.N.R.C. DE-FUNDED

November 23, 1999

TO: Beth Scalco, Director

FROM: Dimitre Blutcher, Field Intervention Specialist

RE: Rebuttal of Written Reprimand and False accusations

This memo is to address implied accusations from Daphne LeSage concerning DNRC and to serve as a Rebuttal of Written Reprimand served to me in my office by Daphne LeSage at 3:20 PM on yesterday, November 22, 1999 (see attachment).

Implied Accusations:

- On yesterday morning, November 22, 199, Daphne came into my office inquiring or basically implying that I had contacted DNRC, Inc. staff about information concerning their contract being discontinued. Responding: I reminded Daphne that I was not involved in the process and that I did not learn of the de-funding until the final decision was made. Secondly, I informed her that I had put off their usual visit until completing CAD's third quarter report because of the uncomfortable feeling I had with OPH-HAP discontinuing the project when the program was succeeding so well.
- I was told by Daphne that I was not to hold any conversation with any DNRC staff because Vernon Shorty and/or Betty Wilkerson was inquiring about OPH-HAP reviewing process. She returned a short time later voicing that she had met with you and told me that I could not discuss the CAD, Project or the de-funding issue. Responding: I reminded her that I did not have the insights of the process, nor was I privileged to be involved as a direct staff person over the project.
- I was informed that I was not to discuss the CAD, Project with DNRC until the exit interview when I am to accompany Jack Carrel to DNRC. Responding: I told Daphne that this was unfortunate because the staff of DNRC was not to blame for of the de-funding and that I felt I had left them in limbo by not discussing the project. I also stressed that I knew of at least two individuals that had overdosed within the past several weeks that had benefitted from the program in the past.

If this action plan should be approved and set forth, it would seem as a direct staff person over the program that I had full knowledge of the whole process and that I may be viewed as an incompetent person overseeing the project.

Reason for Rebuttal:

- On several occasions (one-on-one and during department meetings) I made mentioned to Daphne that the Condom Vending Machines were dysfunctional and that EJCHC reported to Laurie and I that the machine became dismantled when unlocked. It is a fact, and to her own admittance, Daphne was the staff person that ordered the machines two or more years ago and that the machines were purchased without a maintenance contract.
- On September 23rd the decision was made for me to have a 1-1 with Susan and after the 1-1 give her 3 machines to take back to Monroe . On October 15, 1999, I attempted to give Susan a 1-1 on operating the machines as instructed. Before unlocking the machines I informed Susan that the machines may come apart and that the office did not have maintenance contracts for the machines. Upon unlocking the first machine, it completely disassembled. I preceded to unlock a second machine, that machine came apart. I went to Daphne's office and checked at the front desk and was informed that she was on an extended lunch at a tennis match. Upon learning that Daphne was not in the office I did not give the machines to Susan fearing that I would be responsible for giving her broken machines. Additionally, at that time we discovered that the machines had a broken side panel. It is fact that I was never given a 1-1 instructions on using the machines by my supervisor or any other staff, nor was I given any instructions on how to operate the machines.
- On the day Daphne scheduled a departmental meeting I was scheduled to attend a meeting for community planning in Mandeville, Louisiana. I reminded Daphne of the meeting and the distance, she asked me to call her if the meeting was not going to be over by 3:00 p.m. I called her during the meeting (at approximately 2:30 p.m.) informing her that the meeting was still in process. I distinctly remember her asking me if there was any thing else to talk about and I distinctly remember answering I don't think so. Please realize that I called her from Mandeville, while engaged in a meeting, and should not be held responsible for not remembering the condom vending machine issue at that time without any notes in front of me. It is also a fact that Daphne should have had full knowledge of the operation of the machines by being the original staff person on the project and the staff person ordering the machines.
- On September 28, 1999, I distinctly remember having a conversation with Daphne regarding the maintenance problem. I attempted to call the companies, contacting only one, and was told that the office could not obtain a maintenance contract. Additionally, I was informed that the office had to seek maintenance contracts independently and told Daphne of my findings.
- Daphne's concern is that I did not know that the machines were dysfunctional until the time that Susan came to the office. This is not true. My original recommendation was that the project be discontinued, due to the ongoing problems that EJCHC had previously reported (Laurie, Daphne and I knew about), and that it may be costly for OPH-HAP.

- Daphne had full knowledge where the machines were stored and never inspected the machines herself.
- When Daphne and Jack approached me on Friday, inquiring about the machines I informed both of them of what led me to not giving Susan the machines, I offered to show them what I was explaining and even offered her the keys. She declined and left my office. Between Friday and Monday, November 22, 1999 at 3:20 PM, Daphne never broached the issue again, passed my office on several occasions and met with me yesterday (Monday, November 22, 1999) morning on the DNRC accusations and asked me in her office after another meeting to discuss another issue.

Since being under the supervision of Daphne LeSage, she continues to address me in an abrupt manner. As a supervisor she has not made any effort to follow-up on any projects other than when she feels that something is wrong. It seems as though any verbal conversation I have with Daphne is ignored or not recognized as informing her of an issue. I am the only person in our department that has not received an evaluation and until the incident Friday November 19, 1999, and 10 years of employment, I have been given a written reprimand without discussion.

Please keep in mind the facts that between October 15, 1999 and November 19, 1999 the following occurred:

Daphne

- ◆ Out of the office for long periods of time during your absence (verifiable by staff)
- ◆ Was out on sick leave on at least two occasions for two or more days each occurrence.

I, Dimitre

- ◆ On a technical assistance visit in Shreveport leaving New Orleans Wednesday, October 20, 1999, returning Saturday, October 23, 1999
- ◆ Conducted a street and community outreach training October 26, 1999 and October 27, 1999, without the help from my supervisor. Additionally, I had seek assistance from non-department staff to help in rearranging the conference room. My supervisor observed me several times while arranging the training room, moving the heavy table, entering the room at the end of the day asking can she help (which seems sarcastically), ending with I guess I'm too late and left the room
- ◆ Personally securing the needed food for both days with my personal funds (later reimbursed) for the training, visiting several merchants for breakfast and snack items because my supervisor stated that she forgot to order the food through the normal procedures
- ◆ November 1, 1999, attending a community planning subcommittee meeting in Mandeville, LA
- ◆ November 3-12, on vacation leave to attend an AIDS related conference and classes for additional education
- ◆ November 15 - 18 on unscheduled sick leave.

Previously I have brought to your attention how I am constantly addressed my supervisor, Daphne LeSage yet she continues to be allowed to exhibit this behavior, yet I am the person to be reprimanded. I feel that I continued be allowed to be treated unjustly and without warrant, which has caused me undue stress.

Finally, this memo serves as a rebuttal to the memo and a complaint to the unsubstantiated false accusations by Daphne LeSage concerning DNRC. Additionally, I am requesting that a copy of this memo be place in both Daphne LeSage and my personnel files at OPH-HAP, Acadiana CARES and at LSU.

CC: Daphne LeSage, Training and Communication Manager
Personnel Files

**Desire Narcotics Rehabilitation Center, inc.
Auditee Responses**

For the Year ended June 30, 2000

Continued,

Finding 99-1 Timely Payment of Payroll Tax Liabilities

Corrective Action:

The organization is in the process of correcting the finding by arranging for outside financing.

Finding 00-1 Timely Payment of Grant Expenses

Corrective Action:

The organization fully intended on disbursing the checks that were cited in the audit report. However, several problems within the organization caused a hold to be placed on the disbursements. We will ensure that in the future, all checks are disbursed as required by the grant/contract agreements, and in accordance with contractual language.

Finding 00-2 Timely Audit Submission

Due to the timing of the internal audit investigation by the Department of Health and Hospitals and the subsequent lay-off of all office personnel, the audit was delayed. It should be further noted that all audit work was performed on weekends by volunteer staff, which further delayed the auditor's progress. Absent any outside delays the organization has usually gotten audit reports in a timely period.



**EILEEN
SHANKLIN
ANDRUS**
CERTIFIED PUBLIC
ACCOUNTANT

Member of the
American Institute
of Certified Public
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Member of the
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December 20, 2000

RECEIVED
01 FEB 14 AM 9:30

To the Senior Management
And The Board of Directors of
Desire Narcotics Rehabilitation Center, Inc.
4116 Old Gentilly Road
New Orleans, La 70126

I have audited the financial statements of Desire Narcotics Rehabilitation, Center, Inc. as of and for the year ended June 30, 2000, and have issued my report thereon dated December 20, 2000. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

As part of my examination, I have issued my report on the financial statements dated December 20, 2000. and my report on internal control and compliance with laws, regulations, and contracts dated December 20, 2000.

In planning and performing my audit of the financial statements of Desire Narcotics Rehabilitation, Inc. for the year ended June 30, 2000, I considered the Center's internal control to plan my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on internal control.

However, during my audit, I noted certain matters involving internal control and other operational matters that are presented for your consideration. (I previously reported on the Center's Internal control in my report dated December 20, 2000.) This letter does not affect my report dated December 20, 2000, on the financial statements of Desire Narcotics Rehabilitation Center, Inc.

I will review the status of these comments during my next engagement. My comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control structure or result in other operating efficiencies. I will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. My comments are summarized as follows:

1. Physical Inventory (Unresolved from the 1999 Audit)

Recommendation: I recommend that a physical inventory be taken of all assets at least biannually. Periodic inventory taking helps to give a more accurate accounting of the amount recorded as fixed assets.

2. Executive Director's Loans to Employees

Recommendation: I recommend that the practice of loaning employees amounts from personal funds of the Executive Director be discontinued immediately. All amounts owed to the Director by employees from unpaid salary amounts by the Center should also be reimbursed to the Executive Director without delay.

3. Indirect Cost Allocation Plan

Recommendation: I recommend that indirect cost allocations be utilized for administrative costs that do not provide direct services to clients of the Center. I further recommend that the existing allocation plan be updated to properly reflect current funding and payroll bases.

4. Non- Grant Budget Monitoring

Recommendation: I recommend that a budget be adopted and monitored on the general operations of the Center. Proper and diligent budget monitoring can prevent overspending in this category

This letter is intended solely for the information and use of the management and Board of Desire Narcotics Rehabilitation Center, Inc.

Sincerely,

Eileen S. Andrus
CERTIFIED PUBLIC ACCOUNTANT
A LIMITED LIABILITY COMPANY



Desire Narcotics
Rehabilitation Center, Inc.

Desire Narcotics Rehabilitation Center, Inc.

4116 Old Gentilly Rd.
New Orleans, Louisiana 70120
(504) 945-8885
(504) 945-1979 (Fax)

Vernon J. Shorty
Executive Director

Corrective Action Plan **Audit Period Ended June 30, 2000**

1. Physical Inventory (Unresolved from the 1999 Audit)

We concur with the audit finding. We did not conduct a periodic inventory of all assets owned by the Desire Narcotics Rehabilitation Center as of the end of the audit period. DNRC did not make any new purchases of fixed assets during the fiscal year, however, that does not exclude the taking of an inventory on a periodic basis.

We intend to conduct a physical inventory of all fixed assets on hand during the month of April 2001.

2. Executive Director's Loans to Employees

We concur with the finding and the recommendation. The Executive Director will no longer make loans to employees for unpaid salary. However, DNRC does not have the ability to reimburse the Executive Director amounts owed as of the audit end of the audit period.

3. Indirect Cost Allocation Plan

We do not concur with the finding and the recommendation. Currently, DNRC does not have any local, state or federal contracts that would dictate the use of a cost allocation plan.

Currently DNRC is not seeking any federal funding, which in the past, represents the only governmental entity that responds to the cost allocation plan. Contracts with local and state agencies do not follow the federal cost allocation plan for indirect cost. All contracts awarded by local and state governments are for direct cost only.

Therefore, the cost/benefit of the expense to this agency of more than \$6,000.00 annually to have the cost allocation plan updated, has proven to be an unnecessary expense.

4. Non-Grant Budget Monitoring

We concur with the finding and recommendation. We will develop and operating budget for the last six months of the current fiscal year. We will also develop and adopt an operating budget for the next fiscal year. We intend to perform these tasks by April 30, 2001.

5. Prior Year Held Grant Checks

We concur with the finding and recommendation. We are presently reviewing all outstanding checks for propriety. The determination is now being made whether many of these checks represent duplicate payments that were made during the fiscal year. Our review will be completed by March 31, 2001